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USDA FOR FAS/ITP AND FAS/FAA

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SUBJECT: Fujian Province Q3 Economic Report

REF: A) 06 Guangzhou 29114

B) 06 Guangzhou 25667

11. (U) SUMMARY: Fujian continued its robust economic growth in the third quarter (Q3) of 2006 despite the negative effects of natural disasters. Fujian's 12.5% gross domestic product (GDP) growth was fueled by the manufacturing and service sectors, exceeding the national Q3 GDP growth rate of 10.7%. The Province's main exports included machinery (USD 12.9 billion), hi-tech products (USD 6.4 billion), garments (USD 4.2 billion), and footwear (USD 3 billion). Exports to Russia, Switzerland, Brazil, and Ukraine increased by over 50%. Foreign direct investment (FDI) and fixed-asset investment soared, the latter increasing by 36.5% compared to the same period last year. Investments focused on urban areas, especially in the real estate and service sectors. The rural-urban income gap continued to widen, due in part to lower farm incomes as a result of crop damage from typhoons and flooding. END SUMMARY.

FUJIAN FAST FACTS

GDP, billion USD	62.6 (12.5%)
Imports, billion USD	15.9 (9.1%)
Exports, billion USD	29.6 (17.4%)
FDI, actual use, billion USD	2.6 (27.6%)
Fixed asset investment, billion USD	24.5 (36.5%)
Retail sales, billion USD	24.4 (14.5%)
Consumer Price Index	100.5 (0.5%)
Disposable income per capita (urban), USD	1,305.4 (11.6%)
Disposable income per capita (rural), USD	285.9 (11.1%)

(U) Percentages in parentheses represent growth compared to the same period in 2005 (according to the Fujian Statistics Bureau). All currency conversions in this report are made at the average exchange rate of USD 1 = RMB 8.0071.

12. (U) In the first three quarters, Fujian's GDP reached RMB 500.98 billion (USD 65.6 billion), up 12.5% from the same period of last year. The value-added of the primary, secondary, and tertiary industries was RMB 50.26 billion (USD 6.3 billion), RMB 257.48 billion (USD 32.2 billion) and RMB 193.24 billion (USD 2.4 billion) respectively, up 2.1%, 15.6% and 11.3% respectively.

FARMING, FORESTRY, AND HUSBANDRY

¶3. (U) The gross output of the farming, forestry, husbandry, and fishery industries totaled RMB 83.49 billion (USD 10.4 billion), up 2.6% from the same period of last year.

-- Grain production decreased, while the output of cash crops like fruit, tea and edible mushrooms increased by 4.7%, 6.4% and 7.5% respectively.

-- Bamboo production grew by 25%.

-- Meat and egg production increased by 2.9% and 1.4% respectively; the output of milk decreased by 6.6%.

-- Output from the fishery industry decreased by 1.1% due to high diesel fuel costs, typhoons, and a Ministry of Agriculture policy reducing the number of fishing vessels and shifting resources to other industries.

INDUSTRIAL PRODUCTION

¶4. (U) Industrial output reached RMB 709.08 billion (USD 88.6 billion), up 19.5%. In the first three quarters, the value-added of industrial enterprises with annual sales revenue of RMB 5 million (USD 624,000) or more (enterprises "above designated size," according to the Statistics Bureau) was RMB 195.96 billion (USD 24.5 billion), up 19.5%.

FIXED-ASSET INVESTMENT

¶5. (U) Fixed-asset investments reached RMB 196.14 billion

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(USD 24.5 billion), up 36.5%. RMB 172.45 billion (USD 21.5 billion) were invested in urban area, up 38.2%.

-- Investment in infrastructure reached RMB 49.49 billion (USD 6.2 billion), up 34.9%.

-- Growth of investment to the manufacturing sector slowed.

-- Investment in real estate grew by 43.5% to RMB 51.11 billion (USD 6.4 billion). Over 63 million square-meters of commercial floor space were under construction, up 15.1%, and over 13 million square-meters of floor space were sold, up 24.1%.

¶6. (U) Real estate prices continued to rise in Fujian. The average price for commercial housing in Fuzhou was RMB 4,670 (USD 583) per square meter, up 6.3% year-on-year; RMB 6,986 (USD 872) per square meter in Xiamen, up 6.7%; and RMB 3,952 (USD 494) in Quanzhou, up 5.4%. Despite the Central Government's efforts to cool down the real estate market, in September 2006, prices of new apartments in Xiamen and Fuzhou rose by 11.4% and 10% respectively. Economists believe that there is a real estate bubble in Fujian, and that the impact of economic control measures will likely not be evident until mid-2007.

RETAIL SALES

¶7. (U) Retail sales reached RMB 194.71 billion (USD 24.3 billion), up 14.5%. The price index rose 0.5%. Sales of motors reached RMB 12.32 billion (USD 1.5 billion), up 34.8%; sales of petroleum and its byproducts amounted to RMB 11.46 billion (USD 1.4 billion), up 52.3%.

FOREIGN TRADE

¶8. (U) Fujian's foreign trade volume reached USD 45.5 billion in the first three quarters, up 14.38%. Imports reached USD 15.9 billion, up 9.1%; exports reached USD 29.6 billion, up 17.44%.

-- Private enterprises' foreign trade volume grew to USD 9.2 billion. Foreign-invested enterprises contributed 63.9% of the total foreign trade volume, reaching USD 29.1 billion, up 11.18%. State-owned enterprises' foreign trade volume only grew 4.4% to reach USD 7.2 billion.

-- Fujian's top five export markets were the United States (USD 7.7 billion, up 17.2%), the EU (USD 5.6 billion, up 15.19%), Japan (USD 4.5 billion, up 4.96%), Hong Kong (USD 2.2 billion, up 9.9%), and ASEAN (USD 2.1 billion, up 23.61%). Exports to Russia, Switzerland, Brazil, and Ukraine increased by over 50%.

-- Fujian's major exports included machinery (USD 12.9 billion, up 15.7%), hi-tech products (USD 6.4 billion, up 14.34%), garments (USD 4.2 billion, up 21.88%), and footwear (USD 3 billion, up 13.36%).

-- The top five exporters to Fujian were Taiwan (USD 3.1 billion, up 17.2%), Japan (USD 1.9 billion, up 3.44%), ASEAN (USD 1.8 billion, up 6.13%), Korea (USD 1.6 billion, up 4.66%), and the United States (USD 1.6 billion, up 2.95%).

-- Major imports included machinery (USD 8.5 billion, up 12.36%), hi-tech products (USD 4 billion, up 8.96%), agricultural products (USD 980 million, up 8.68%), plastic (USD 994 million, down 5.41%), and steel (USD 381 million, down 26.97%).

FOREIGN DIRECT INVESTMENT

¶9. (U) Top investors to Fujian were Hong Kong, the Virgin Islands, Taiwan, ASEAN, and Japan, which accounted for 81.2% of the total contracted foreign investment in the Province. The utilized foreign direct investment (mainly in the manufacturing sector) amounted to USD 25.8 billion, up 27.6%. The average size of a foreign invested project was USD 3.7 million. USD 1.2 billion was invested in the service sector, up 79.1%.

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RESIDENTS' INCOME AND EMPLOYMENT

¶10. (U) Urban residents' per capita disposable income was RMB 10,452.74 (USD 1,305.4), up 11.6%; rural residents' per capita cash income was RMB 3,612.91 (USD 451.2), up only 8.6%.

¶11. (U) A total of 494,600 new employees entered the workforce in the first three quarters in 2006. Of this total, 339,000 were from the rural population and joined the manufacturing sector. Companies in Xiamen, Fuzhou, Quanzhou, and Zhangzhou were the top recruiters. The official unemployment rate for registered residents remained around 3.95% in the Province.

PROBLEMS IDENTIFIED BY THE PROVINCE

¶12. (U) Natural disasters, such as Typhoons Chanchu, Kaemi, and Prapiroon, caused a decrease in agricultural growth. The gross output and value-added of the agricultural sector decreased by 1.5% in the first three quarters. The Statistics Bureau noted the pressure to increase farmers' income became more intense due to the widening rural-urban income gap. The Bureau also claimed that a widening industrial price scissors gap (an economic phenomenon wherein changing world price levels cause a country's exports to decline in value, while the valuation of its imports remains relatively stable) caused profits to decline. The newly released tax reimbursement policy, international trade conflicts (such as the EU shoe dumping case against China), and barriers set by foreign countries were challenges to Fujian's foreign trade development.

PREDICTION OF ANNUAL ECONOMIC PERFORMANCE

¶13. (U) The Statistics Bureau predicted that Fujian's year-end GDP growth will be 12%. The gross output of farming, forestry, husbandry, and fishery will grow by 2.8%. The output of industries "above designated size" will increase by 22%. Retail sales will grow by 14.5%. Urban residents' per capita disposable income will reach USD 1,698.5; rural residents' per capita cash income will reach USD 599.5, up 10.4% and 8% respectively. The consumer price index will be 100.6.

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